

HERITAGE SHORES SPECIAL DEVELOPMENT DISTRICT BRIDGEVILLE, DELAWARE

Question and Answers Regarding the Creation of Special Development District and the Issuance of Special Obligation Bonds

1. WHAT IS A SPECIAL DEVELOPMENT DISTRICT?

A special development district is a defined geographic area within a town or a county created by the government at the request of the owners of the property in the proposed district.

2. WHAT IS THE PURPOSE OF A SPECIAL DEVELOPMENT DISTRICT?

The purpose of a special development district is to provide means for planning, financing and constructing various public improvements and community facilities within or for the benefit of the district.

3. WHAT IS THE AUTHORITY FOR THE TOWN OF BRIDGEVILLE (THE “TOWN”) TO CREATE SPECIAL DEVELOPMENT DISTRICTS?

The Delaware General Assembly amended the Town Charter to grant the Commissioners of Bridgeville (the “Commissioners”) the authority to create special development districts. Pursuant to such amendment, codified as Section 29(A) of the Town Charter (Section 29A of 51 Delaware Laws, Chapter 237, as amended) (the “Bridgeville Statute”), the Commissioners have the same powers to create special development districts as those granted by the General Assembly in Chapter 18 of Title 22 of the Delaware Code (the “Municipal Statute” and, collectively with the Bridgeville Statute, the “Act”) to towns with a population in excess of 50,000 people. Therefore, the authorization granted by the Municipal Statute to towns with a population in excess of 50,000 people applies to the Town to the same extent as if the Town were such a town within the meaning of the Municipal Statute.

4. WHEN AND HOW WAS THE HERITAGE SHORES SPECIAL DEVELOPMENT DISTRICT (THE “DISTRICT”) CREATED?

The District was created at the request of 100% of the then owners of the property to be located in the District (i.e., Passwaters Farm LLC). The Commissioners, having made certain legislative findings concerning the public benefit and purpose of such district, designated by a resolution an area within the geographic boundaries of the Town to be known as the “Heritage Shores Special Development District” (the “Resolution”). The Resolution was adopted on March 22, 2005 in accordance with the requirements of the Town Charter and the Act.

5. WHEN AND HOW WERE THE BONDS ISSUED?

On May 9, 2005, the Commissioners enacted Ordinance No. A05-7 pursuant to which the Commissioners authorized the issuance of special obligation bonds in one or more series in an aggregate principal amount not to exceed \$65,000,000 (the “Bonds”). On July 28, 2005, pursuant to an Executive Order of the President of the Commissioners, the Series 2005A Bonds in the principal amount of \$19,847,000 and the Series 2005B Bonds in the principal amount of \$8,600,000 (collectively, the “Series 2005 Bonds”) were issued.

On November 23, 2020, the Commissioners issued \$12,295,000 of Series 2020 Bonds. The Series 2020 Bonds were issued pursuant to and under the provisions of the Act, certain resolutions and ordinances of the Commissioners, an executive order of the President of the Commissioners, and a Trust Indenture dated as of June 1, 2005, as supplemented by the First Supplemental Trust Indenture dated as of December 22, 2008 and the Second Supplemental Trust Indenture dated as of November 1, 2020 (collectively, the “Indenture”).

6. WHAT WERE THE PROCEEDS OF THE SERIES 2005 BONDS USED TO FINANCE?

The proceeds of the Series 2005 Bonds were used to finance the following improvements:

- (i) public road, storm, water and sewer improvements procured by the Developer within the District or outside the District providing service or benefit to the District and dedicated to the Town (collectively, the “Developer’s Facilities”), and
- (ii) a public library (the “Library”) and various miscellaneous public improvements procured by the Commissioners providing service or benefit to the District (“Miscellaneous Improvements” and, together with the Library, the “Commissioners’ Facilities”).

Series 2005 Bond proceeds of \$20,695,910 were allocated to the Developer’s Facilities and \$1,600,000 were allocated to the Commissioners’ Facilities.

7. WHAT WERE THE PROCEEDS OF THE SERIES 2020 BONDS USED TO FINANCE?

The proceeds of the Series 2020 Bonds were used to refund all of the outstanding Series 2005A Bonds, fund a debt service reserve fund created under the Indenture in the amount of the initial debt service reserve requirement, and pay certain costs of issuing the Series 2020 Bonds.

8. WILL ANY ADDITIONAL BONDS BE ISSUED TO FINANCE INFRASTRUCTURE FOR THE DISTRICT?

The Ordinance authorized the issuance of Bonds in a maximum aggregate principal amount of \$65,000,000. It is contemplated that additional bonds will be issued to finance infrastructure improvements for future phases of the Heritage Shores development. Additional bonds can only be issued if certain financial tests set forth in the Trust Indenture relating to debt service coverage on the Bonds and the amount of the special taxes levied within the District have been satisfied.

9. WHAT IS THE SECURITY FOR THE BONDS?

The Bonds are secured by (i) proceeds of Special Taxes, including any scheduled payments and any prepayments thereof, interest thereon and proceeds of the sale of property sold or other remedies taken as a result of a delinquent Special Taxes sale action (but excluding any penalties collected in connection with delinquent Special Taxes) and (ii) moneys on deposit in the funds and accounts that are pledged in the Indenture for the repayment of Bonds.

Neither the Developer's Facilities nor the Commissioners' Facilities are pledged as security for the Bonds. The Bonds are not a general obligation debt of the Commissioners and they do not constitute a pledge of the Commissioners' full faith and credit or taxing power.

10. WHAT IS THE TERM OF THE SPECIAL TAXES?

The Special Taxes will not be levied on a parcel within the District after the earlier of (i) repayment or defeasance of the Bonds, (ii) the 30th fiscal year in which such parcel was taxed as Developed Property, or (iii) such time provided by the Indenture.

11. CAN SPECIAL TAXES BE PREPAID?

Property owners have the option, but not the obligation, to prepay the Special Tax in full at any time. Prepaying the Special Tax fully satisfies the obligation to pay the Special Tax in future years. The proceeds from a prepayment of the Special Tax are used to redeem Bonds. A notice of such prepayment is recorded in the Sussex County Land Records and the Special Tax Roll is amended to indicate that the Special Tax has been prepaid for the parcel.

For further details, please contact the Administrator using the information provided in Section 15.

12. HOW ARE SPECIAL TAXES IMPACTED BY CHANGES IN THE PLANNED DEVELOPMENT FOR THE DISTRICT?

The planned development for the property within the District has changed a number of times over the years. The Rate and Method of Apportionment of Special Taxes does not provide a set number of units that must be constructed within the District. Instead, it states that if the planned development decreases below a certain threshold, the Developer must make a mandatory prepayment that would reduce the total bonds outstanding. The threshold is met if the District Maximum Special Tax (the sum of the parcel maximum special taxes at full buildout) falls below the District Minimum Special Tax (a set amount), subject to certain additional tests provided for in the Rate and Method.

Pursuant to the Rate and Method, the planned development used to set the District Minimum Special Tax was 1,706 units, comprised of 982 single-family detached units and 724 single-family attached units.

13. WHAT HAPPENS IF A HOMEOWNER DEFAULTS IN THE PAYMENT OF HIS/HER SPECIAL TAXES?

A failure of a homeowner to pay his/her Special Taxes will not affect any other homeowner in the District. If a homeowner defaults in the payment of his/her Special Taxes, the Commissioners will employ the normal collection procedures available to them for all delinquent general ad valorem tax collection efforts.

14. WHAT HAPPENS IF THERE IS A DEFAULT ON THE BONDS?

The only time the Bonds would be in default is if proceeds of the Special Taxes and amounts in the debt service reserve fund were not sufficient to pay the principal of, or interest or any premium on, the Bonds. The Bonds are structured to manage this risk by establishing a debt service reserve fund to be maintained by the trustee in an amount prescribed by the Indenture. If, on a date on which a payment of principal of or interest on the Bonds is to be made, the trustee did not have sufficient funds from the proceeds of Special Taxes to pay all amounts due, the trustee would draw on the debt service reserve fund to cover the deficiency. The debt service reserve fund would then be replenished to the required reserve level from future Special Taxes proceeds in accordance with the procedures set forth in the Indenture.

Although unlikely, it is possible that Special Tax proceeds may not be sufficient to pay the principal of, and interest and any premium on, the Bonds or to replenish the debt service reserve fund to the required reserve level following a deficiency draw. This risk factor, present in all financings of this type, has been disclosed to the bondholders at the time of the sale of the Series 2020 Bonds and is routinely taken into consideration by such investors in their purchase analysis.

15. WHERE CAN A HOMEOWNER REVIEW COPIES OF THE DOCUMENTS RELATED TO THE BONDS?

Copies of all of the documents related to the Bonds and the District are on file with the Commissioners at the Town Hall. Many of these documents can be found at <https://bridgeville.delaware.gov/heritage-shores/>.

16. WHO CAN I CONTACT FOR ADDITIONAL INFORMATION ON THE DISTRICT?

Additional information on the District can be obtained from the District Administrator, MuniCap, Inc., by calling 443-539-4101 or emailing info@municap.com.